First Trust
Monday Morning OUTLOOK

630-517-7756 • www.ftportfolios.com September 19, 2016

The Glass Half Empty

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – Dep. Chief *Economist*
Strider Elass – *Economist*

We get called perma-bulls, wrongly we think, because we were late to call 2008 a Panic, and because we've pushed back against the doom and gloom of the past 7 1/2 years. Time and again over the past several years, we've argued the Plow Horse economy would continue to grow.

Remember fears about adjustable-rate mortgage re-sets, or the looming wave of foreclosures that would lead to a double-dip recession? Remember the threat of widespread defaults on municipal debt? Remember the hyperinflation that was supposed to come from Quantitative Easing? Or how about the Fiscal Cliff, Sequester, or the federal government shutdown? Or the recession we were supposed to get from higher oil prices…and then from lower oil prices? How about the recession from the looming breakup of the Euro or Grexit or Brexit?

In the end, none of these were reasons to fear a recession or to bail out of stocks.

But this doesn't mean we are "perma-bulls." It doesn't mean we will never be concerned about the prospects for recession. Sooner or later, the US will have another recession. And even though we've consistently pushed back against others' recession theories the past several years, we are always on the lookout for recession theories that make sense.

And although we don't think a recession will happen anytime soon, there are some data we're concerned about.

In the past fifty years, one of the best signals of an impending recession has been medium and heavy truck sales. Anytime that's dropped substantially – and the 31% drop since June 2015 certainly qualifies – a recession has started within two years of the peak in sales. If that holds this time around, we'd be due for a recession starting by the middle of 2017.

Given the traditional role of these vehicles to the flow of commerce around the country, a drop should never be casually dismissed. So, normally the drop since mid-2015 would give us serious concerns about the economy.

This time, however, the drop in medium and heavy truck sales has come during a time of falling oil prices and less mining activity. In addition, sales before mid-2015 may have been artificially high due to a new regulation on trucks' antilock braking systems. Some sales appear to have been accelerated to avoid the new rule, which then went into effect. There have been other regulations on emissions that affected sales as well.

Another data series we're watching closely is what we call "core" industrial production, which is industrial production excluding utilities, mining, and autos, all of which are very volatile. The core measure is down 0.9% from a year ago. Normally a decline of nearly 1% only happens in recessions or right after they end, but it also happened back in January 2014, so we think it's important to wait and see. Once again, the absorption of lower oil prices and the huge drop in drilling activity in the energy sector may be holding down production.

If truck sales and core industrial production continue to show weakness it would certainly get more of our attention. But, for now, we think the weight of the data show continued Plow Horse growth.

Job growth continues at a healthy clip. Initial unemployment claims have averaged 261,000 over the past four weeks and have been below 300,000 for 80 straight weeks. Consumer debt payments are an unusually low share of income and consumers' seriously delinquent debts are still dropping. Wages are accelerating. Home building has risen the past few years even as the homeownership rate has declined, making room for plenty of growth in the years ahead.

Meanwhile, there haven't been any huge shifts in government policy in the past two years. Yes, policy could be much better, but the pace of bad policies hasn't shifted into overdrive lately.

In other words, our forecast remains as it has been the past several years, for more Plow Horse economic growth. But you should never have any doubt that we are constantly on the lookout for something that can change our minds.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-20 / 7:30 am	Housing Starts – Aug	1.190 Mil	**1.200 Mil**		1.211 Mil
9-22 / 7:30 am	Initial Claims – Sep 12	260K	**261K**		260K
9:00 am	Existing Home Sales – Aug	5.450 Mil	**5.480 Mil**		5.390 Mil